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KEY ECONOMIC INDICATORS

In millions of U.S. dollars unless noted

	1986	1987	1988
Domestic Economy			
Population (millions)	51.5	52.8	54.2
Population growth (%)	2.4	2.5	2.5
GDP in current dollars (a)	52955.0	61855.6	64515.2
GNP in current dollars (a)	52987.6	61961.8	64219.8
Per capita GDP, current dollars	1028.3	1171.5	1190.3
GDP in local currency (1983=100)	328.1	486.8	840.6
GNP in local currency (1983=100)	327.7	486.9	835.4
Consumer Price Index % change	30.7	55.1	75.2
Production and Employment			
Labor force (1,000s)	18512	18804	19085
Unemployment (average % per year)	15.8	15.2	14.4
Industrial production (1983=100)	374	549	972
Government deficit as % of GDP (b)	3.9	4.8	3.8
Balance of Payments			
Exports (F.O.B.) (c)	7547	10190	11662
Imports (C.I.F.) (c)	11199	14279	14372
Trade balance (d)	-3081	-3229	-1800
Workers' remittances	1634	2021	1755
Current account balance	-1528	-982	1503
Foreign direct investment (new)	125	110	352
Foreign debt (year-end)	31228	38304	37694
Debt service paid	4657	5607	7158
Debt Service (% of merchandise exports) (e)	62.5	55.0	61.4
Foreign exchange reserves (year-end)	3187	3959	5229
Average exchange rate (TL/$)	669.40	855.68	1416.49
Foreign Investment			
Cumulative Total (million TL)	302909	435568	784715
Cumulative U.S. (million TL)	35654	44162	67312
U.S. share (%)	11.8	10.1	8.6
U.S.-Turkey Trade			
U.S. exports to Turkey (C.I.F.)	1177.0	1366.1	1519.5
U.S. imports from Turkey (F.O.B.)	549.0	714.1	760.6
U.S. share of Turkey's exports (%)	7.4	7.0	6.5
U.S. share of Turkey's imports (%)	10.6	9.6	10.6
U.S. bilateral aid			
Economic	119.6	100	32
Military	703.6	493.5	493.3

Principal U.S. exports (1988): Transportation equipment, chemicals, aircraft parts, scrap metal, coal, food

Principal U.S. imports (1988): Tobacco, petroleum, minerals, organic chemicals, textile fibers and products, and steel

NOTES:

(a) at factor cost
(b) consolidated central government deficit
(c) excludes transit trade
(d) includes transit trade, insurance and gold bullion imports
(e) F.O.B. value of merchandise exports excluding transit trade

Sources: State Institute of Statistics, Central Bank of Turkey, State Planning Organization

SUMMARY

The Turkish economy has experienced profound changes in the years since the historic reforms of January 24, 1980. Its export-led growth strategy and free-market principles catapulted Turkey into the ranks of the fastest growing economies in the Organization of Economic Cooperation and Development (OECD) from 1985 through 1987. The pace of Turkey's growth slackened in 1988. GNP growth, at 3.4 percent, was below the targeted rate of 5 percent, the rate considered necessary to avoid increases in unemployment, which is officially reported at 14.4 percent.

Turkish authorities in 1988 promulgated austerity measures aimed at reducing public sector expenditures to decrease the fiscal deficit and bring down the soaring rate of inflation. In response to these measures, the economy slowed down, but the inflation rate remained high. While inflation appears to have decelerated in early 1989, it remains a persistent political as well as economic problem for Prime Minister Ozal's administration.

While there were problems on the domestic economic front, positive results in the 1988 balance of payments are encouraging. Increased earnings from exports and tourism, together with decreased import expenditures, led to Turkey's first current account surplus since 1973. The current account continued to show a surplus as of the end of the first quarter of 1989. Turkey met its substantial foreign debt obligations for 1988 and is expected to meet its 1989 repayment schedule. The Ozal administration's draft Sixth Five-year Development Plan, with its ambitious average yearly growth rate of 7 percent, will require continued and greater gains in exports and foreign investment in order to meet its targets.

CURRENT ECONOMIC SITUATION AND TRENDS

National Income: The manufacturing sector represented approximately 22 percent of GNP at factor cost in 1988, but in real terms manufacturing grew only 2.6 percent as compared to a 10 percent growth rate in 1987. The private manufacturing sector, which represents approximately 66 percent of the total, grew by a modest 1.7 percent. Production was stagnant during the third quarter and declined in the fourth quarter, ending 1988 with disappointing results for the Ozal administration.

The public sector dominates manufacturing production only in chemicals, petroleum, rubber, and plastics. The largest private sector manufacturing gains were in the food, beverage, and tobacco subsector, which grew by 9.6 percent. Significant gains also were made in the nonmetallic mineral products subsector in which private producers saw gains of nearly 8 percent. The largest private

manufacturer decline was in wood products and furniture production, which dropped by 10 percent. Agriculture contributed a larger share to total output in 1988 (22 percent versus 19 in 1987) and grew faster than any other sector, with a 6.9 percent growth rate. There were major gains in the output of lentils, tobacco, and hazelnuts, but soybeans, maize, and sugarbeet production declined significantly. The outlook for the agricultural sector in 1989 is not as positive as in 1988, because of the serious drought Turkey experienced in the first quarter of 1989. Reduced grain exports, together with an estimated 2 million tons of imported wheat, will have a net cost of approximately $600 million in 1989.

Consumption grew at a slower pace (2.2 percent) than in 1987 in reaction to the high rates of inflation, the Turkish Government's austerity measures, and declining real wages, especially in the public sector.

Fixed investment declined 1.5 percent in real terms in 1988. Private sector investments rose at a slower pace than in 1987, but the healthy 13.9 percent increase, which amounted to 12.7 trillion Turkish lira, exceeded public sector investment for the first time in recent history. Private investment in the housing sector continued to show impressive gains as investors chose real estate as a "safe" investment in inflationary times. As in 1987, the gain in private investment was offset by a real decline (14.3 percent) in public sector investment. Measures to reduce the public sector deficit promulgated by the Turkish Government in February and expanded in October 1988 have had a significant dampening effect on public investment expenditures.

Prices, Money, and Inflation: Turkey continues its battle against high rates of inflation. The Ozal administration's failure to bring inflation under control was a major factor in the defeat of Ozal's Motherland Party (ANAP) in the March 1989 municipal elections. At the end of 1988, the Wholesale Price Index had increased by 70 percent, as opposed to a 49 percent increase at the end of 1987. The rate of increase of the Consumer Price Index was even faster, at 75 percent. In early 1989, there was a deceleration in inflation, but by May, rates accelerated again, leading most experts to doubt that inflation at year-end 1989 (as measured by the WPI) would fall below 60 percent, the government's target.

The major cause of inflation in Turkey is the public sector deficit that nearly doubled in 1987. Substantial price increases on goods produced by the public sector, delayed until after the November 1987 municipal elections, caused a surge in inflation in the early months of 1988. Incremental price hikes in public and private sector goods contributed to the spiral as gasoline, kerosene, and telephone rates increased by 100 percent during the course of the year. As prices continue to rise, the public's inflationary expectations have hardened.

Monetary policy during 1988 was less accommodating than in the so-called election-economy of 1987. Increases in the broad money supply (M2) as well as reserve money during the first months of 1989 have exceeded those during the same periods in 1988, however, leading many observers to conclude that the Central Bank's tight monetary policies of 1988 have taken a back seat to the Ozal administration's need to stimulate the economy out of a recession.

Public Finance: During 1988, the consolidated central budget ran a deficit of 3.4 trillion Turkish lira, or approximately 3.4 percent of GNP. This represents improvement from the 4.5 percent ratio in 1987. Expenditures were below appropriations and showed a real decrease from 1987 spending, but revenues did not reach targets. The 1989 budget projects a 4.5 trillion Turkish lira deficit, which would represent 2.8 percent of targeted GNP. Increased public investment spending in advance of the March municipal elections contributed to a budget deficit of 535 billion Turkish lira at the end of the first quarter of 1989, compared with 381 billion Turkish lira in the same period in 1988.

According to State Planning Organization provisional estimates, at year-end the public sector borrowing requirement represented 6 percent of GNP versus the 1987 ratio of 7.9 percent, still exceeding the 1986 level. The public sector deficit includes the central government budget, the SEEs, the municipalities, and the extra-budgetary funds. The greatest improvement was made in the borrowing requirements of the State Economic Enterprises (SEEs), which dropped from 4.2 percent of GNP in 1987 to an estimated 2.4 percent in 1988. The SEEs made transfers to the budget in the amount of 1 trillion Turkish lira, a nominal increase of 126 percent over 1987 transfers.

The Turkish Government hopes to improve tax collection in 1989 through a new program of advance tax payments by self-employed taxpayers and a recently enacted law on auditing procedures. If the Turkish Government is successful in its efforts to modernize the tax collection system and enforce existing laws, it would be a major step toward better fiscal control.

Balance of Payments and Foreign Debt: Turkey's exports fell short of expectations in 1988, yet exceeded 1987 total exports by 14.4 percent (from $10.2 billion to $11.7 billion). Cotton exports grew by 609 percent in response to the Turkish Government's decision to remove the export surcharge. Iron and steel exports rose by an impressive 71 percent. On the whole, growth in agricultural and petroleum exports exceeded that of industrial products.

Policies enacted at the end of 1988 to curb increases in imports were successful in limiting import growth to approximately 1 percent. West Germany again was Turkey's largest foreign supplier

with a 14.3 percent share, followed by the United States (10.6 percent) and Iraq (10 percent). In early 1989, import policies were revised to reduce import deposit rates as well as customs duties.

For the first time since 1973, Turkey enjoyed a current account surplus, amounting to $1.5 billion. This remarkable improvement came as a result of the lowest trade deficit in a decade ($1.8 billion) and a jump of approximately 60 percent in tourism revenues (from $1.48 billion to $2.36 billion).

These statistics should be viewed with some caution, however. Export values for 1987 overstated exports by an estimated 15 percent. In 1988, the Government of Turkey clamped down on the practice of overstating exports to receive export tax rebates, and the rebate program was abolished as of April 1989. The "Errors and Omissions" item in the balance of payments, which equaled a negative $459 million in 1987 rose to a positive $347 million in 1988. Experts believe this large positive figure is a result of understatement of tourism receipts, payments to Turkish contractors operating abroad, or repayment of "involuntary" credits extended to Middle East trading partners.

Foreign investment in Turkey, which equaled $352 million in 1988, has not reached its potential, despite liberal investment statutes and efforts to streamline applications. Turkey has enacted a number of bilateral treaties regarding taxes and investment aimed at increasing foreign investment. The U.S.-Turkish Bilateral Investment Treaty has been ratified by both governments' legislatures and is expected to go into effect soon. If Turkey enacts a modern patent law, improves copyright protection for artistic works and enforces its statutes, it will become even more attractive to investors.

In 1988, the Turkish Government issued permits for foreign investment valued at $825 million (a 54 percent increase over 1987), bringing the cumulative total of foreign investments to $3.2 billion. The United States led all other foreign investors with $132 million in authorized investments and took the lead again during the first quarter of 1989. Often permits are not used or investment is undertaken over a protracted period of time. Therefore, the amount of foreign investment actually made remains much lower than the amount of permits issued.

Despite rigorous debt-service obligations in 1988, Turkey's nonmilitary foreign debt stabilized at $37.7 billion at the end of 1988. This represents a net repayment of debt in the amount of $610 million, due largely to exchange rate fluctuations. Nearly $1 billion in short-term debt, which had been rising, was paid down by year-end. Debt service payments in 1988 were high at $7.2 billion and will require another sizeable chunk of Turkey's foreign exchange in 1989 (an estimated $7.35 billion).

The Turkish Government has estimated a current account surplus of $800 million for 1989. This is based on a 3.7 percent increase in exports, an 8.9 percent growth in imports and a fairly modest growth in invisible earnings. First quarter statistics show a surplus of $255 billion, which bodes well for achievement of the 1989 target.

IMPLICATIONS FOR THE UNITED STATES

Despite the Ozal administration's disappointing inability to make further progress in wringing inflation out of the Turkish economy in 1988, business prospects for U.S. firms selling to or investing in Turkey remain very promising. The Turkish Government's enlightened and liberal policy of actively seeking to attract foreign investment and to increase foreign trade levels, even in the face of persistent deficits, bodes well for the Turkish economy, and, inter alia, U.S. business interests. Although total Turkish imports increased by less than $100 million in 1988, U.S.-origin exports to Turkey increased by more than $150 million over their 1987 levels. This figure, however, does not include very significant but unquantifiable transshipments to Turkey through the European subsidiaries of U.S. firms. Also, despite Europe's greater geographic proximity, the United States led among all other countries in new foreign investment in Turkey, with more than one-third of the 1988 total of $352 million. This figure likewise does not include investment, probably very substantial, by subsidiaries of U.S. firms registered as European corporations.

In view of Turkey's 1988 current account surplus, steadily increasing foreign exchange reserves, and a big jump in foreign direct investment in 1988, the possibility of sustained high rates of inflation are virtually the only dark clouds on the horizon for U.S. firms wishing to do business here. However, after the stunning setback suffered by Prime Minister Ozal's ANAP party in the March 1988 municipal elections, it is generally agreed that Prime Minister Ozal and the leadership of his party now perceive inflation as their number one political problem and steady progress in its resolution as fundamentally necessary. There is much to recommend Turkey as a place to do business--the government's enlightened and liberal trade and investment policies; a disciplined and productive work force, both blue and white collar; vast undeveloped and underdeveloped mineral and agricultural resources; enormous potential for development of the tourism sector; and the government's deliberate intent to shrink the public sector share of the economy while stimulating and encouraging domestic and foreign private investment. Most importantly, however, the high probability that Turkey's liberal, market-oriented macroeconomic policies will endure regardless of what government comes to power is at the root of investor confidence and exporters' enthusiasm.

As noted in the statistical tables, transportation equipment, chemicals, aircraft parts, scrap metal, coal, and food were the leading U.S. export items in 1988. When economic growth resumes at a more customary rate, there will also be potentially

strong Turkish demand for such other U.S. products as computers and peripherals, analytical and scientific equipment, medical equipment, food processing and packaging equipment, metalworking equipment, telecommunications equipment, and power generation and transmission line equipment.

Nine of the largest U.S. banks are represented in Turkey either with branches or representative offices or in joint-venture banks. Likewise, a majority of the "big eight" public accounting firms are already established in Turkey, and other U.S. firms have recently opened offices to provide legal and advertising services. Opportunities in the agribusiness, tourism, and defense industry sectors have so far attracted the most direct U.S. investment, but the Turkish Government's plans to "privatize" many state-owned enterprises will also attract additional foreign investment in airport services, government-owned hotels, cement, textile, and a variety of other industries. Turkey's new mining law opens up enormous mineral resources for private sector, including foreign, development.

Recent events are indicative of the strengthening investment/trade relations between Turkey and the United States and of the increasing level of interest among the U.S. business community in new opportunities in Turkey. In June 1988, the third meeting of the U.S.-Turkish Business Council took place in Istanbul. The Council, comprised of senior executives of U.S. and Turkish firms, has met annually to discuss trade and investment policy concerns, with the objective of facilitating trade and investment and improving bilateral trade relations. The U.S. Chamber of Commerce has affiliated Turkish "AMCHAMS" in Istanbul and Ankara. There is also a Turkish-American Businessmen's Association in Izmir. On the government-to-government level, a U.S.-Turkish Bilateral Investment Treaty has been ratified and is expected to enter into force very soon. This treaty guarantees "national treatment" for investors of both countries, assures the right to transfer freely dividends and other payments related to investments, and provides for a dispute settlement procedure. In addition, negotiations began in 1986 on a bilateral tax treaty are now in their final stages.

There are expanding opportunities for trade with and investment in Turkey. However, public investment is at present constrained by policy and by budget stringency, and many major government tenders still require suppliers' credits on favorable terms. Suppliers should consider imaginative project financing packages, e.g., the utilization of third country export credits, when bidding on major government infrastructure projects. In the private sector, new investment in plant and equipment to supply the domestic market is rising steadily, but Turkish manufacturers with exportable products remain the best targets for sales.

The Turkish Government's private sector orientation is evident from the techniques it has used in negotiating with foreign firms wishing to build power plants, a new international airport and world trade center complex in Istanbul, and toll roads. The government has

invited foreign firms to submit proposals on the "build, operate, and transfer" (BOT) model, thereby, in effect, transferring much of the financial and operating risk to the foreign supplier. The Turkish Government plans to implement several major energy and infrastructure projects, and the Turkish State Planning Organization (SPO) has published a listing of major projects with a total investment value in the billions of dollars for which it is seeking foreign financing.

Space in this report is limited, but some major projects for which equipment procurement is still continuing, and projects which are about to commence, are listed below :

Build-Operate-Transfer (BOT) Projects

- State Planning Organization, Foreign Investment Department:
  Approximately 50 hydropower and thermal power plants.

Other Projects

- Ministry of Education:
  Vocational Training Project (World Bank funded).
  General Education Project (World Bank funded).
  Computer Assisted Education Project (World Bank funded).
- Council of Higher Education:
  Technical Training Project--phase II (World Bank funded).
- Turkish Electricity Authority:
  Power Systems Operations Assistance Project (improved efficiency of thermal power plants (World Bank funded).
  Transmission lV Project (World Bank funded).
- EtiBank (nonferrous minerals mining agency):
  Mazidag Phosphate Fertilizer Complex.
  Milas Alumina Production Project.
  Soda Ash (trona) Production Project.
- Post, Telegraph and Telephone (PTT):
  Satellite Communications Project ("Turksat").
- General Directorate of Radio Communication (TGM):
  National Radio Communication Frequency Monitoring System.
- Ministry of Health:
  Health Infrastructure Improvement Project (World Bank funded).
- Municipalities:
  Transportation Studies and Project Design for Light Public Rail Transportation Projects for Bursa and Izmir.
  Natural Gas Distribution Equipment and Supplies for the Cities of Istanbul, Ankara, Izmit, and Eskisehir.
  Theme Park in Suburban Istanbul (BOT Model), Olympic Village to host the Summer Olympics in the year 2000 or 2004 (BOT Model), and the World Trade Center (BOT Model) projects of the Istanbul Municipality.

- Ministry of Agriculture:
  Agricultural Extension II Project (World Bank funded).
- Ministry of Tourism:
  Southwest Coast Sewerage Project: sewerage and sewage treatment and disposal facilities, water supply facilities.
- Southeast Anatolia Development Project:
  Multi-billion dollar project to develop agricultural infrastructure of Southeastern Turkey, focusing on hydroelectric power generation and irrigation projects, but also including the development of social infrastructure (transport, health and education facilities to stimulate economic integration and development).

U.S. exporters, including engineering and technical consulting services firms, should also be aware that Turkey is a major beneficiary of the NATO infrastructure development program. Spending on NATO projects, which runs the gamut from harbor development projects to satellite communications networks, is expected to continue at the recent level of about $5 billion annually, NATO-alliance-wide. Foreign (NATO-member country) firms wishing to compete for these projects usually must possess a NATO security clearance and must be certified by the Office of Major Projects of the U.S. Department of Commerce as financially and technically qualified. Information about NATO infrastructure projects is reported to the U.S. Department of Commerce in Washington, D.C. by U.S. Embassies in NATO-member countries and is published in Commerce Business Daily, and is also available through Commerce's Trade Opportunities Program.

Export Sales Opportunities: A major trend in the private sector is steadily increasing demand for computers, related software, and services. U.S. exporters of electronic data processing equipment offering local service and training can expect to enjoy an excellent export market in Turkey for years to come, especially in the banking sector and in government agencies. New emphasis on improvement of the Turkish health care and education sectors is also expected to lead to an expansion in the market for medical diagnostic equipment and educational equipment and consulting services in the near term.

Surveys on the Turkish markets for mining and construction equipment, telecommunications equipment, power generation equipment, food processing equipment, computers, analytical instrumentation, coal, and fertilizers, as well as other products and services related to agriculture, steel, and medical equipment can be obtained at U.S. Department of Commerce district offices, the American Embassy in Ankara, or the American Consulate General in Istanbul.

Import Procedures: The Ozal government's liberalization program is a dramatic departure from previous governments' policies. The Turkish Government is progressively and comprehensively reducing

import duties and surcharges. In addition, any product which is not included in two relatively limited and continously shrinking lists may be freely imported without government permission or license. For most items, importers need only apply to a commercial bank for a foreign exchange allocation. No other formalities are necessary. Turkish Government agencies (including state-owned economic enterprises), however, are required to obtain permission for all imports. Importers are still required to make a security deposit when opening letters of credit of either 1 or 7 percent of the letter of credit's value, depending on the type of product and its use. Import certificates are required from the Ministry of Industry for most products which require after-sales service (for example, photocopiers, EDP equipment, diesel generators, etc.).

Import certificates for both sufficiency of after-sales service and items on the "import with permission" list are generally routinely granted, although some delays are occasionally experienced.

To promote U.S. exports to Turkey, particularly to introduce products which represent new technology, the U.S. Government supports an American Pavilion at the Izmir International Trade Fair, held annually during August 26 - September 10. Inquiries regarding participation may be directed to the Commercial Counselor, American Embassy, Ankara, APO New York 09254-0001.

Investment and Licensing Opportunities: In recent years, due to high interest rates and low domestic consumption, the private sector generally has been reluctant to undertake major new capital investment and has tended instead to move toward the modernization and expansion of existing plants and equipment. Major new investments have, during the last several years, predominantly been joint ventures with foreign firms. The best opportunities for joint ventures are in the areas of agribusiness (including food processing and packaging), power generation, defense-related equipment, tourism, and mining. Several agreements (some worth as much as $300 million) have recently been concluded in these sectors, and negotiations continue for many more. Foreign investment in manufacturing is also welcome (a Fortune 500 firm is currently building a $70 million industrial plant) and Turkish officials emphasize the regional market potential of the Middle East. Recent legislation authorizes the establishment of free trade zones in Turkey, the first of which opened in 1986. Detailed information about the investment climate in Turkey can be obtained from the Embassy's Commercial Counselor. Companies interested in learning more about investment opportunities in Turkey should also contact: The Foreign Investment Department, State Planning Organization (DPT), Necatibey Caddesi No. 110, Bakanliklar, Ankara.

Several U.S. fast food chains and car rental agencies have sold franchises in Turkey and the success of their operations will almost certainly lead Turkish firms to seek franchises in other areas of commercial activity. Convenience store and copy center franchisors are now negotiating agreements.

In order to stimulate industrial development, the Turkish Government actively encourages the importation of foreign capital and technology. Until 1984, domestic industry was largely protected from import competition, and foreign suppliers licensed their technology in order to gain entry into the Turkish market. Now, however, with more liberal import and investment regulations, the Turkish Government is emphasizing joint venture investments which result in the transfer of both technology and capital.

Investment Regulations: Since 1980, the Turkish Government has centralized the foreign investment review and approval process in the Foreign Investment Department (FID) of the State Planning Organization. This office is the principal point of contact for potential foreign investors (except for investors in the tourism and petroleum sectors, which are governed by different legislation).

Basic legislation governing foreign investment in Turkey is Law 6224, issued in 1954, supplemented by the present, streamlined authorization system, and the Framework Decree on Foreign Capital (Decree No. 8/168) which also established the FID. Subsequent decrees have clarified and expanded the FID's scope, giving it authority, for example: 1) to issue permits for the purchase and importation of intellectual property; 2) to authorize the establishment of trading, representation, or regional offices in Turkey with greatly reduced capital requirements and tax liabilities; 3) to authorize repatriation or reinvestment of assets acquired by a foreign investor through the sale or liquidation of a Turkish company or partnership; and 4) to issue work permits for foreign nationals needed for new or increased foreign investment. The FID actively promotes foreign investment in Turkey. FID officers will gladly meet with prospective foreign investors and help identify potential Turkish joint venture partners. The FID reviews (and, to date, has never disapproved) foreign investment applications, which include, inter alia, project feasibility reports and applicant-firm financial statements. The FID is authorized to approve investments of up to $50 million. Investment proposals above this limit must be approved by the Council of Ministers. Foreign investors may also be entitled to various investment incentives provided under Turkish law for specific purposes, that is, export promotion, regional development, or tourism projects.

Financing: Given the gap between Turkey's extensive needs and its limited internally generated resources, external financing of public and private project investment will be a crucial factor in coming years. In addition to new short-and medium-term credits available from commercial banks, the Export Import Bank of the United States (Eximbank) offers a variety of credit facilities to U.S. firms exporting to Turkey. U.S. firms may also compete for contracts financed by the World Bank and such third countries as Saudi Arabia and Kuwait. Foreign commercial banks, which have been supplying Turkey with short-term credits for the last several years, are now offering medium-term facilities as well. Private sector exporters generally are favored as recipients of such credits.